

First Mutual Insurance Co.
Questions & Answers
Dec. 4, 2000

Where is First Mutual Insurance Co. based and what is its service area? First Mutual is a Lexington-based company authorized to do business throughout Kentucky. However, much of its business is concentrated in Eastern Kentucky.

How many policyholders does the company have? The company began writing home and auto coverage in Kentucky in 1997. First Mutual has 8,000 policyholders throughout Kentucky. Of that total, 5,300 are homeowner policies.

Who owns the company? First Mutual is an assessment mutual insurance company, owned by the policyholders, and managed by a holding company, KYWide. The company president is Buford McIntosh.

What has happened to First Mutual? The Kentucky Department of Insurance became concerned about the company's financial stability and placed a financial examiner onsite at the company in October. The department determined that the company is financially insolvent and action must be taken immediately to protect the interests of the policyholders.

Who can policyholders contact for coverage questions? If someone has a claim, he or she should notify the company. People with other questions or concerns about insurance may contact DOI's Consumer Protection and Education Division at **800-595-6053** (or, for people with hearing impairment: 800-462-2081).

Why is First Mutual in financial trouble? The company had been experiencing a high loss ratio and was not able to build up sufficient capital and reserves to continue operating. Basically more money was going out than was coming in -- its premium rates were low and its claims were high. First Mutual is an "assessment company." An assessment company can charge premium rates below the market rate with the option of assessing policyholders additional sums if the company's loss rate is worse than expected.

What is an "assessment company"? Assessment companies originated in rural communities in the 1800s when farmers banded together to cover farm losses. Kentucky state law was amended in 1998 to prevent creation of new assessment companies in this state. However, existing companies were "grandfathered in."

What is DOI's role? DOI has the responsibility of determining whether or not insurance companies doing business in Kentucky are financially sound and statutorily solvent. If a company is in serious financial difficulty, DOI can petition the court to take over the company's operation and either rehabilitate the company (reorganizing the company's structure) or, if rehabilitation is not possible, proceed with liquidation.

What action has DOI taken? The Department of Insurance filed a petition on Tuesday, Nov. 28, in Franklin Circuit Court stating that the company was about to become insolvent and the policyholders interest would be harmed if there was a delay in action. DOI asked that the department be allowed to supervise the daily operations of the company. The president of First Mutual and his legal counsel agreed with this course of action. The petition was granted Friday, Dec. 1, by Judge William Graham. DOI will be proceeding with liquidation.

What will happen to policyholders' insurance coverage? Coverage will end on Dec. 31, 2000. Termination notices were sent Friday, Dec. 1, to policyholders by Deputy Liquidator Ernest Dry.

What are their options now that First Mutual is out of business? Policyholders must find replacement coverage.

Policyholders were told on Dec. 1 that their policies will be terminated on Dec. 31. Why such short notice? The department staff has moved quickly in this matter to ensure that policyholders' interest is protected. Because of concerns about company finances, the department sent an examiner to First Mutual in advance of its regular financial examination. However, it would not have been proper to make a premature announcement speculating about the company's finances before a financial examination was complete and official action was taken. DOI got the word out as soon as possible -- Judge Graham granted the petition on Dec. 1 and a press release and notices to the policyholders went out that same day.

Does First Mutual have sufficient funds to pay claims? That determination will be made during the liquidation process. The deputy liquidator was on site Dec. 1 and began taking a look at assets and liabilities. The auto portion of the business is 100 percent "reinsured" so the reinsurer would have to pay off claims if the company cannot. The Department of Insurance will be meeting with the Kentucky Insurance Guaranty Association on Thursday, Dec. 7. A guaranty fund insures the integrity of the insurance industry. Companies operating in a particular state contribute to a fund that is used to pay claims of a company that is insolvent.

What about refunds of pre-paid premiums? Will people get their money back? There is a chance of repayment from the company or the Guaranty Association. But it could take six months or more.

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